



# Weekly Credit Outlook

13 FEBRUARY 2012

## NEWS & ANALYSIS

### Corporates

2

- » Conclusion of Diamond Foods' Accounting Review Is Credit Positive for Procter & Gamble
- » Argentina Changes the Rules Again for Energy Companies, a Credit Negative
- » Higher Share of India's Fuel Subsidy Is Credit Negative for State-Owned Upstream Companies
- » Mass Market Developers Favored by China's Eased Mortgage Terms

### Infrastructure

8

- » FAA Funding Reauthorization Is Credit Positive for US Airports
- » UK Support for National Health Trusts Is Credit Positive for Project Companies

### Banks

10

- » Mortgage Settlement Is Credit Negative for Big US Banks
- » BB&T Acquisition Is Another US Regional Bank Deal that Reduces Capital
- » Itaú Unibanco's Buyout of Redecard Boosts its Card Operations, a Credit Positive
- » VTB's Proposed Share Buyback Is Credit Negative
- » Russian Banks Had a Good 2011, but 2012 Looks To Be Weaker
- » Kazakhstan Bank Loans Grow 15%, a Credit Positive
- » Huijin's Agreement to Lower Dividends Is Credit Positive for China's Big Three Banks
- » Delay in Revising Korea's Capital Market Act Is Credit Positive for Major Securities Companies
- » New Reserve Requirements Are Credit Negative for Some Philippine Banks

### Insurers

26

- » Unum's Exit of Group Long-Term Care Business Is Credit Positive
- » Old Mutual's Sale of Skandia Insurance Company Leads to Beneficial Debt Reduction

### Asset Managers

29

- » New 401(k) Fee Disclosure Rules Are Credit Negative for Asset Managers

### Sovereigns

32

- » Special Economic Zone Increases Cayman Islands' Economic Diversification, a Credit Positive
- » Commitment to Multilateral Agreement Is Credit Positive After Romania's Government Collapse

- » Malev Airline's Collapse Is Credit Negative for Hungary
- » South Africa's Rejection of Mine Nationalizations Is Credit Positive
- » Japan's Export-Collapse-Driven Drop in Current Account Surplus Is Credit Negative

### US Public Finance

40

- » Public Sector Pension Plans' Reduced Investment Return Assumptions Are Credit Positive
- » New Fees on Natural Gas Wells Are Credit Positive for Pennsylvania Local Governments
- » Governor's Proposed Budget Is Credit Positive for Michigan Local Governments
- » Fiscal Crisis Declaration in Long Beach, New York, Boosts City Manager's Authority, a Credit Positive

### US Accounting

48

- » What's New in 10-Ks for Corporates
- » What's New in 10-Ks for Financial Institutions

## RATINGS & RESEARCH

### Ratings

52

Last week we downgraded Irish Life & Permanent, Partner Reinsurance Company, Banco Financiero y de Ahorro, NCG Banco, Catalunya Banc, Riverside County in California, multiple Spanish multi-cedulas, and upgraded CEVA Group, among other rating actions.

### Research

58

Last week we published on B3 and lower US corporates, Indian power sector, US wireless, Argentine energy companies, Ashtead Group, Asia Pacific banks, Russian banks, CIS banks, reinsurers, Pakistan, US student housing, New Jersey, California, European CMBS, and Irish RMBS, among other reports

follow us on  
**twitter**  
[twitter.com/MoodysWCO](https://twitter.com/MoodysWCO)

[Click here](#) for *Weekly Market Outlook*, our sister publication containing Moody's Analytics' review of market activity, financial predictions, and the dates of upcoming economic releases.

---

## NEWS & ANALYSIS

*Credit implications of recent worldwide news events*

---

Robert Weber  
Assistant Vice President - Analyst  
1.212.553.7280  
robert.weber@moody.com

### Fiscal Crisis Declaration in Long Beach, New York, Boosts City Manager's Authority, a Credit Positive

Last Tuesday, the City of Long Beach, New York's (Baa3 review for downgrade) city council approved a resolution declaring the city to be in a fiscal crisis. The resolution is credit positive because it gives the city manager greater control over the city's financial operations, including the authority to implement budgetary initiatives to further fiscal stability. Importantly, it does not allow the city to forgo the payment of contractual agreements, including the payment of debt service.

The city's fiscal crisis status gives the city manager greater control over the budget and power to implement initiatives that limit spending. All purchase requests from the city's department heads will need the city manager's approval. To address burdensome labor and overtime expenses, the city manager will implement policies that freeze the filling of non-essential positions and reduce overtime expenses in the public safety departments. These policies will require collaboration with employee bargaining groups to implement.

Overtime expenses have been a perennial strain on the city's \$83.7 million budget. The city has already exceeded its entire annual overtime budget of \$1.78 million by \$561,868, just over half-way through the fiscal year. The city manager also gains the authority to make any and all amendments to the city's budget, including reductions in appropriations or transfers and adjustments to under-budgeted expenditures and overestimated revenues.

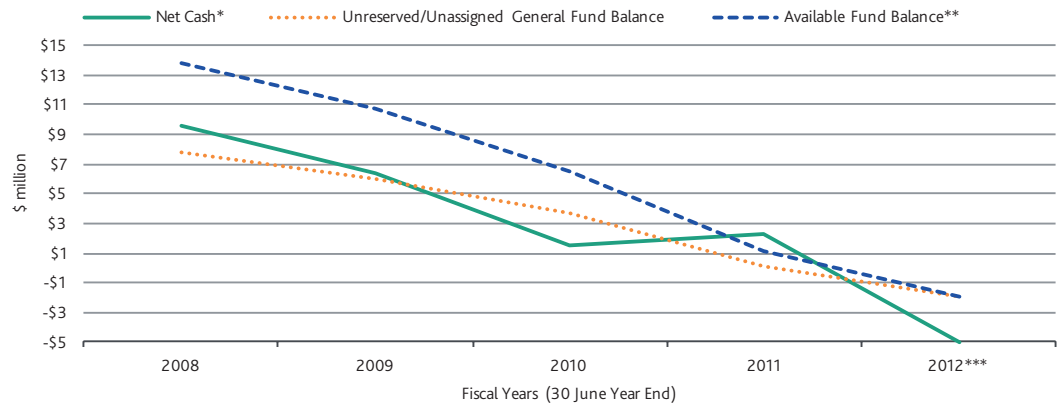
The declaration of fiscal crisis follows years of weakening financials as several of the city's departments have chronically spent beyond their budgets. For example, in fiscal 2011, spending by the fire department exceeded its budget by 25% and police department spending surpassed its budget by 10.3%.

As the exhibit below shows, the city's financial and liquidity positions have been in decline for several years. The city overestimated revenues from fiscal 2008 through 2011, especially those related to mortgage and utility taxes, and underestimated expenditures. Improper budgeting for transfers between the Debt Service and General Funds resulted in a draw of \$1.7 million from the Debt Service Fund. As of 30 June 2011, the Unassigned General Fund balance declined to approximately \$100,000, a mere 0.2% of 2011-12 expenditures. In December 2011, the city estimated that by 30 June 2012, the General Fund will have a deficit of \$2 million. Consequently, the city in December resorted to issuing cash flow notes to raise cash to meet its payroll obligations and at the time the city's projections indicated further deterioration of cash through the end of June.

# NEWS & ANALYSIS

Credit implications of recent worldwide news events

## Long Beach, New York, Financial Position Since 2008



\* Net Cash reflects the city's cash position net of any cash flow borrowing

\*\* Available Fund Balance consists of Undesignated/Unassigned General Fund balance plus Debt Service Fund balance

\*\*\* 2012 fiscal year end results are projected by the city as of December 2011

Source: 2008-11 Audited Financial Statements